



Testimony of

R. Michael S. Menzies, Sr.

President and CEO, Easton Bank and Trust Company
Easton, Maryland

On behalf of the
Independent Community Bankers of America

Before the

United States House of Representatives
Committee on Small Business

Hearing on

“Increasing Access to Capital for Small Businesses”

October 14, 2009
Washington, D.C.

Chairwoman Velazquez, Ranking Member Graves, Members of the Committee, my name is Michael Menzies. I am the President and CEO of Easton Bank and Trust Company in Easton, Maryland and the Chairman of the Independent Community Bankers of America¹. Easton Bank is a state-chartered community bank with \$150 million in assets. I am pleased to represent community bankers and ICBA's 5,000 members at this important hearing on the Small Business Administration lending programs.

Summary of Testimony

- The weak economy and challenging credit markets for many small businesses warrants stable and workable SBA loan programs.
- Community banks are prolific small business lenders and many rely on robust SBA lending programs to supply long-term capital to small businesses. ICBA applauds the Small Business Committee's legislative initiatives that support and strengthen the vital SBA 7(a) and 504 loan programs.
- Beneficial SBA lending incentives included in the American Recovery and Reinvestment Act (ARRA) have helped jumpstart SBA lending.
- ICBA recommends and supports a strong SBA rural lender program, increasing the 7(a) loan limit to \$3 million, improving SBA's guarantee reimbursements, a national lender training program, and the use of alternative business size standards advanced by the Committee.
- Small business access to credit is critical for a strong economic recovery. Therefore, unduly burdensome and overly aggressive bank exams and onerous new regulations on community banks must be avoided to support small business lending and economic strength.

Small Business and Community Banks Key to Recovery

America's small businesses are critical to supporting our economic recovery. Small businesses represent 99% of all employer firms and employ half of the private sector workers. The more than 26 million small businesses in the U.S. have created the bulk of

¹ *The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 268,000 Americans, ICBA members hold more than \$908 billion in assets, \$726 billion in deposits, and more than \$619 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

new jobs over the past decade. With many of the largest firms stumbling and the unemployment rate reaching 10 percent, the viability of the small business sector is more important than ever. The Small Business Administration's loan programs exist to assist our Nation's entrepreneurs. ICBA appreciates the Committee's support of robust SBA loan programs and proposals to make them even better.

Community banks like mine specialize in small business relationship lending. Community banks stick with their local communities and small business customers in good times and in bad. We serve a vital role in small business lending and local economic activity not supported by Wall Street. For their size, community banks are enormous small business lenders. While community banks represent about 12% of all bank assets, they make 31% of the dollar amount of all small business loans less than \$1 million. Notably, half of all small business loans under \$100,000 are made by community banks.

Community-based banks form the building blocks of our nation's communities by providing small business capital and credit to all geographic regions of the country. They have played a vital role in the stability and growth of each of the fifty states by providing a decentralized source of capital and lending. This wide dispersion of our nation's assets and investments helps preserve the safety, soundness, fairness, and stability of our entire financial system.

A Tale of Two Lenders

Mega-firms have stumbled and have dramatically cut small business lending. The headlines have been full of reports on the giant lenders like Bank of America, GMAC, GE Finance, and CIT that took on huge risks and stumbled. Community banks represent the other side of the financial story and credit market. Despite the dominance in the media about a "credit crunch" community banks are very much alive, well and willing to lend.

The truth is, community banks are open for business. Community banks, in general, rely more on local deposits to fund local lending so they don't rely heavily on Wall Street capital markets for funding. In fact, small banks of \$1 billion in asset size or less were the only segment to show any increase in their net loans and leases in the latest quarterly FDIC data. Unlike the Wall Street mega-firms, community banks do not have to dramatically readjust our business model or lending practices.

Simply stated, community banks balance sheets are transparent and strong. That said, there are genuine credit market difficulties that continue to have real consequences across the entire financial and economic spectrum from Wall Street to Main Street.

Economic Recovery Package Important

The severe economic recession justified a sizable economic stimulus, including tax relief measures for individuals and small businesses. The ICBA was pleased the American Recovery and Reinvestment Act (ARRA) enacted in February contained several ICBA-backed tax relief and SBA reform measures to help boost small businesses. Specifically, the major SBA loan program enhancements enacted are all helping many small

businesses ride out this deep recession and we support the extension of the key incentives for SBA 7(a) and 504 lending programs.

At my bank I have made use of both the first-time homebuyer tax credit and the SBA “ARC” loan program. These incentives have allowed me to best help my individual and small business customers and they are having a positive impact on the community.

ICBA Supports Extension of Key SBA Incentives in ARRA

ICBA applauds the Small Business Committee’s legislation to extend the beneficial SBA enhancements included in ARRA. Specifically ICBA supports:

- Extending the SBA fee reductions through fiscal year 2011;
- Extending the higher guarantee levels through fiscal year 2011;
- Expanding the “ARC” loans programs to apply to existing SBA loans, increasing the maximum loan amount to \$50,000, and streamlining loan paperwork; and,
- Making permanent the SBA secondary market facility authority.

If enacted, these measures would all help community banks expand their SBA lending to small businesses and would stimulate much-needed economic activity and job creation.

ICBA-Backed SBA Reforms

ICBA supports additional measures the Committee is proposing to enhance SBA lending. ICBA believes the key to best meeting small business capital needs is to have diversity in SBA lending options. The SBA should be able to meet the needs of both large and small SBA loan program users. This was ICBA’s main objection to the SBA’s elimination of the successful “LowDoc” program. It was used most often by banks that did a small number of loans and did not have the dedicated SBA loan expertise staff.

Because there are more than 8,000 community banks nationwide they can support a large number of SBA loans if community banks are more easily able to use SBA. In other words, we don’t want an SBA with a one-size-fits all cookie cutter approach that only the biggest-volume SBA lenders can fully use. Before this financial crisis hit, nearly 60% of all SBA loans were concentrated in just ten banks. If we are concerned with supplying small businesses with a steady source of capital, the SBA needs to do a better job of embracing the more than 8,000 banks nationwide so all lenders can easily participate.

The Small Business Committee’s Proposals Will Help

The ICBA is pleased with several of the Committee legislative proposals that will help diversify SBA programs and make them more community-bank friendly. Specifically ICBA supports:

- Making the community express program permanent;

- Supporting a small lender outreach program;
- Establishing a permanent rural lender program; and,
- Creating a national lender training program.

Many community banks do want to participate in SBA lending but are not part of the SBA preferred lender program (PLP) or have loan officers dedicated exclusively to SBA lending. While some smaller community banks may make only a few SBA loans, these SBA loans are critical to the local communities they serve. Therefore, the SBA should not lose sight of the relative importance of these community bank SBA loans and their economic importance to small communities throughout America. The Committee's efforts to provide flexibility and diversification in SBA loan programs will go a long way in allowing more community banks to supply capital to their local small business customers.

SBA Secondary Market

Several ICBA-backed programs have been launched to help unfreeze the secondary market for pools of SBA guaranteed loans, including the Term Asset-Backed Securities Loan Facility (TALF) and a new SBA secondary market facility. ICBA helped ensure the TALF program was available for purchasing SBA loans.

The ARRA legislation also promoted SBA secondary market assistance. However, success of the ARRA's SBA secondary market program has been hampered by the debate over potential additional fees to operate the program and has stalled its launch. ICBA recommends using the existing substantial funded budget authority to run the program in combination with user fees so as not to hamper the program with unworkable double fees. ICBA supports the Committee's legislative effort to address and enhance the SBA secondary market program to help ensure it is available as intended. While the frozen secondary market for SBA loans has begun to thaw and recover, ICBA believes with additional minor adjustments, the targeted secondary market programs at SBA can provide another reliable source to securitize SBA loans and keep more money flowing to small businesses.

Note on Overzealous Bank Regulation Hurting Small Business Lending

Even with greater fiscal and monetary stimulus and incentives for SBA lending, efforts by community banks to increase lending will be hamstrung if regulatory burdens are increased. Unfortunately pro-cyclical bank regulatory policies continue to jeopardize credit availability for many small businesses. ICBA believes the bank regulatory pendulum has swung too far and is crushing many community banks' ability to lend to deserving small businesses. Community banks did not cause the current financial crisis fostered by the missteps of the too-big-to-fail banks. Unfortunately, bank regulators are often applying crippling regulatory exams and policies across-the-board.

This examination environment is exacerbating the contraction in credit for small businesses, as community bankers must avoid making good loans for fear of examiner

criticism, write-downs, and the resulting loss of income and capital. While it is expected and understandable that examiners will be more thorough and careful during a credit downturn, excessively tough exams that result in potentially unnecessary loss of earnings and capital can have a dramatic and adverse impact on the ability of community banks to provide small business loans and the ability to support economic growth. Lawmakers must be cautious so that the missteps of a few large financial players do not foster costly new regulatory burdens on *all* financial institutions. This will likely cause banks to further tighten credit because of the increase in transaction costs for lenders and small businesses alike.

Additional SBA Proposal Support

ICBA believes SBA loans serve a unique role and deserve Congress' full support during this difficult economic environment. Lenders need to match short-term deposits with short-term small business loans. While the typical commercial small business loan has a maturity of one to three years, SBA 7(a) loan maturities average 12 or more years. Importantly, SBA lending allows longer loan terms up to 25 years. This lowers the entrepreneur's loan payments and frees up needed cash flow to start or grow the small business. As small businesses do their best to weather the current difficult economic climate, the longer loan term offered by an SBA loan is a huge help. ICBA appreciates the Small Business Committee's support for the SBA programs and especially for proposing a robust authorization level. Specifically ICBA recommends and supports:

- \$17.5 billion in 7(a) program authority through fiscal year 2011;
- Increasing the SBA 7(a) loan limit from \$2 million to \$3 million; and
- Allowing alternative loan size standards for determining eligible small business borrowers.

Enacting these measures will support growing small business loan demand typical in the early economic recovery stage coming out of a recession.

In conclusion, the SBA loan programs are a success story where thousands of small businesses that otherwise would not have had access to capital are funded. The SBA program legislation and reforms advanced by the Committee will allow community banks to extend more SBA loans to meet the needs of small businesses. ICBA pledges to work with the Small Business Committee to ensure the nation's small businesses have the access to capital they need to invest, grow, and to provide jobs and economic growth. Thank you.